



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 4, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe   
Acting Auditor-Controller

SUBJECT: **CHILDRENS HOSPITAL LOS ANGELES CONTRACT REVIEW - A  
DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Childrens Hospital Los Angeles (CHLA or Agency), a Department of Mental Health (DMH) service provider.

**Background**

DMH contracts with CHLA, a private non-profit community-based organization that provides services to clients in Service Planning Area 4. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Third District.

Our review focused on approved Medi-Cal billings. DMH paid CHLA between \$2.01 and \$4.81 per minute of staff time (\$120.60 to \$288.60 per hour) for services. CHLA's contract was for approximately \$10.2 million for Fiscal Year (FY) 2006-07.

**Purpose/Methodology**

The purpose of the review was to determine whether CHLA complied with its contract terms and appropriately accounted for and spent DMH funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

### **Results of Review**

CHLA maintained documentation to support the billed service minutes. In addition, staff assigned to the County contract possessed the required qualifications. However, the Agency did not always complete Client Care Plans and Progress Notes in accordance with the County contract.

While DMH pays CHLA based on a negotiated rate per unit of service, the contract also requires that if the Agency's revenues exceed their actual expenditures, the Agency must repay DMH for the excess amount received. The Agency reports their revenues and actual expenditures on their annual Cost Report and repays DMH for any excess amounts paid. CHLA charged the DMH Program for unallowable and undocumented expenditures that they may need to repay based on the final FY 2006-07 Cost Report. Specifically, CHLA:

- Allocated \$83,054 to the DMH program for expenditures that did not benefit DMH clients.
- Allocated \$4,398 in shared building lease expenditures to the DMH program but could not provide documentation to support the allocation.
- Used program funds totaling \$10,857 to pay for undocumented and unallowable expenditures.

We have attached the details of our review along with recommendations for corrective action.

### **Review of Report**

We discussed the results of our review with CHLA and DMH on April 7, 2008. In instances where the Agency provided sufficient additional documentation, we adjusted our report accordingly. In their attached response, the Agency agrees to make improvements in many areas. However, the Agency disagreed with some of our recommendations. Specifically, CHLA's response indicated that:

- **Agency's Response:** The Agency provided audit staff with invoices that included the date and hours worked to support the payments to their sub-contractors who were paid by the hour.

**Auditor's Response:** As indicated in our report, Agency management subsequently provided us with schedules of *projected* hours for some of the contractor's staff. However, the schedules were incomplete and the contractors did not provide the Agency with time reports for all the staff to indicate the hours actually worked.

- **Agency's Response:** The Agency will not submit a revised Cost Report to DMH that excludes unallowable and undocumented expenditures identified in our report because the total cost to deliver the contracted services will continue to exceed the amount they were paid.

**Auditor's Response:** A revised Cost Report is necessary so that DMH has an accurate report of the costs to deliver the contracted services and can determine whether the Agency was over paid. The Cost Report is also used to negotiate future billing rates. As a result, DMH needs to ensure that the Agency provides them with a revised Cost Report.

We thank CHLA management for their assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer  
Dr. Marvin J. Southard, Director, Department of Mental Health  
Richard D. Cordova, President & CEO, Childrens Hospital Los Angeles  
Public Information Office  
Audit Committee

**CONTRACT COMPLIANCE REVIEW  
CHILDRENS HOSPITAL LOS ANGELES  
FISCAL YEAR 2006-07**

**BILLED SERVICES**

**Objective**

Determine whether Childrens Hospital Los Angeles (CHLA or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

**Verification**

We judgmentally selected 45 billings totaling 6,369 minutes from 241,372 service minutes of approved Medi-Cal billings for May and June 2007. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 6,369 minutes represent services provided to 25 program participants.

**Results**

CHLA maintained documentation to support the billed service minutes. In addition, the Agency completed Assessments in accordance with the County contract. However, the Agency did not always complete Client Care Plans and Progress Notes in accordance with the County contract requirements.

**Client Care Plans**

CHLA did not complete some elements of the Client Care Plans in accordance with the County contract for 13 (52%) of 25 clients sampled. Specifically:

- Seven Client Care Plans contained goals that were not observable and/or quantifiable.
- Three Client Care Plans did not contain goals and planned interventions for each type of treatment provided.
- Three Client Care Plans were not signed by the clients or parents/guardians indicating their participation in the development of the Client Care Plans as required by the contract.

**Progress Notes**

CHLA did not complete the Progress Notes in accordance with the County contract for three (7%) of 45 Progress Notes reviewed. Specifically, the Progress Notes

documented services with more than one staff present during an intervention and did not describe the specific contribution of each staff person.

### **Recommendation**

1. **CHLA management ensure that Client Care Plans and Progress Notes are completed in accordance with the County contract.**

## **CLIENT VERIFICATION**

### **Objectives**

Determine whether clients received the services that CHLA billed DMH.

### **Verification**

We interviewed five participants that the Agency billed DMH for services during May and June 2007.

### **Results**

The five program participants interviewed stated that the services they received from the Agency met their expectations.

### **Recommendation**

**There are no recommendations for this section.**

## **STAFFING LEVELS**

### **Objective**

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that require staffing ratios for this particular program.

## **STAFFING QUALIFICATIONS**

### **Objective**

Determine whether CHLA's treatment staff possessed the required qualifications to provide the services.

### **Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 22 of the 111 CHLA treatment staff who provided services to DMH clients during May and June 2007.

### **Results**

The Agency maintained documentation to support that each employee in our sample possessed the qualifications required to provide the services billed.

### **Recommendation**

**There are no recommendations for this section.**

## **SERVICE LEVELS**

### **Objective**

Determine whether CHLA's reported service levels varied significantly from the service levels identified in the DMH contract.

We did not perform test work in this area as DMH's contract with CHLA did not specify the required service levels for each type of service provided for Fiscal Year (FY) 2006-07.

## **CASH / REVENUE**

### **Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash and other liquid assets.

### **Verification**

We interviewed CHLA's management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliation for October 2007.

### **Results**

CHLA properly recorded and deposited cash receipts timely. In addition, the Agency prepared monthly bank reconciliations.

### **Recommendation**

There are no recommendations for this section.

### **COST ALLOCATION PLAN**

#### **Objective**

Determine whether CHLA's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

#### **Verification**

We interviewed management and reviewed the Agency's financial records for FY 2006-07.

#### **Results**

CHLA did not have a written Cost Allocation Plan. Agency management explained that they allocated shared building lease expenditures based on full-time equivalent positions and allocated other indirect expenditures based on direct program expenditures. However, the Agency could not provide documentation to support the actual allocation of shared building expenditures. Agency management subsequently provided documentation that showed they revised their building lease allocation based on square footage, which is an allowable method.

In reviewing the expenditure allocations, CHLA allocated \$83,054 to the DMH program for expenditures related to inpatient admitting and food services that did not benefit DMH clients. The Agency also charged \$4,398 to the DMH program for two lease payments on a non-DMH facility. Subsequent to our review, the Agency informed us that the DMH program used the facility that incurred the two lease payments totaling \$4,398.

DMH pays CHLA based on a negotiated rate per unit of service provided rather than cost reimbursement. If the Agency's revenues exceed their actual expenditures, the Agency must repay DMH for the excess amount received. The Agency reports their revenues and actual expenditures on their annual Cost Report and repays DMH for any excess amounts paid.

### **Recommendations**

**CHLA management:**

- 2. Ensure that the Agency maintains a detailed Cost Allocation Plan that allocates shared costs that benefit DMH clients.**

3. **Maintain documentation to support expenditure allocations.**
4. **Revise the FY 2006-07 Cost Report to reduce the reported program expenditures by \$83,054 and repay DMH for any excess amount received.**

### **EXPENDITURES**

#### **Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH program.

#### **Verification**

We reviewed CHLA's financial records and documentation to support 20 non-payroll expenditure transactions totaling \$140,751 that the Agency charged to the DMH program between February and November 2007.

#### **Results**

The Agency used program funds totaling \$10,857 to pay for undocumented and unallowable expenditures. Specifically:

- Two expenditures totaling \$9,210 were paid during FY 2007-08 to consultants that were paid an hourly rate. However, the Agency did not maintain documentation to support the expenditures. Specifically, the Agency maintained a work schedule but did not maintain time reports that indicated the date and hours worked to support the hours charged to the program.
- Two expenditures totaling \$1,647 (\$814 in FY 2006-07 and \$833 in FY 2007-08) were not supported by a receipt or invoice.

As stated above, DMH pays the CHLA based on a negotiated rate per unit of service provided rather than cost reimbursement. If the Agency's revenues exceed their expenditures, the Agency must repay DMH for the excess amount received.

#### **Recommendations**

##### **CHLA management:**

5. **Ensure that program expenditures are supported by adequate documentation.**
6. **Reduce DMH program expenditures charged to DMH for FY 2007-08 by \$10,043 (\$9,210 + \$833) to reflect the undocumented expenditures.**



7. **Revise their FY 2006-07 Cost Report to reduce the reported program expenditures by \$814 and repay DMH for any excess amount received.**

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether fixed assets and equipment costs charged to DMH were for items used by the DMH program and that the items were adequately safeguarded.

#### **Verification**

We interviewed staff and reviewed the Agency's fixed assets and equipment listing. The Agency charged \$37,014 to DMH for fixed assets and equipment during FY 2006-07.

#### **Results**

During our review, CHLA could not provide a fixed asset and equipment listing. Subsequent to our review, the Agency provided a listing that supported the \$37,014 charged to DMH for fixed assets and equipment. However, the listing did not include the item description and acquisition cost of the asset.

#### **Recommendation**

8. **CHLA management ensure that the fixed assets and equipment listing includes the item description and acquisition cost of the asset.**

### **PAYROLL AND PERSONNEL**

#### **Objective**

Determine whether payroll expenditures are appropriately charged to the DMH program.

#### **Verification**

We traced payroll expenditures for ten employees totaling \$10,026 to the payroll records and time reports for the bi-monthly pay period ending October 20, 2007. We also reviewed the employee benefit expenditures and interviewed eight employees.

#### **Results**

CHLA's salaries and employee benefits were properly documented and appropriately charged to the DMH program.

**Recommendation**

There are no recommendations for this section.

**COST REPORT**

**Objective**

Determine whether CHLA's FY 2006-07 Cost Report reconciled to the Agency's financial records.

**Verification**

We interviewed management and compared the Agency's FY 2006-07 Cost Report with the Agency's general ledger.

**Results**

CHLA's Cost Report reconciled to the Agency's accounting records.

**Recommendation**

There are no recommendations for this section.



**Childrens Hospital Los Angeles**

*International Leader in Pediatrics*

August 13, 2008

Original sent via Federal Express

Wendy L. Watanabe, Acting Auditor-Controller  
County Of Los Angeles  
Department Of Auditor-Controller  
Kenneth Hahn Hall Of Administration  
500 West Temple Street, Room 525  
Los Angeles, California 90012-2706

**RE: Childrens Hospital Los Angeles (CHLA)  
Contract Review – A Department Of Mental Health (DMH) Service Provider  
Fiscal Year: 2006 – 07**

Dear Ms. Watanabe:

This letter is intended to be a formal Agency Response to your draft report received by CHLA dated August 11, 2008 as well as to the Contract Compliance Review attached to your report also dated August 11, 2008.

CHLA contracts with DMH and is paid on a negotiated rate per unit of service provided and is NOT paid on a cost reimbursement basis. The CHLA cost of providing these services to the DMH exceeds the negotiated rate in every contracted modality and these costs will continue to exceed the negotiated rates even when the DMH auditor findings are considered. CHLA agrees with or disputes the auditors' findings as discussed below. CHLA will initiate corrective actions where appropriate.

**BILLED SERVICES**

The August 11, 2008 Draft Report on Billed Services indicates one recommendation. This recommendation is that CHLA management:

1. Ensure that Client Care Plans and Progress Notes are completed in accordance with the County contract.

CHLA would like to provide our response to this recommendation, and specific action plans to ensure that we are billing for services in accordance with our contract with the DMH.

1. **Response to Ensuring that Client Care Plans and Progress Notes are completed in Accordance with the County contract.**

CHLA agrees with the findings of the report that indicates that CHLA maintains documentation to support billed service minutes. CHLA supervisors place great emphasis upon staff compliance regarding the completion of service notes, and CHLA is pleased that Billed Services progress notes and Client Care Plans were present in 100% of the records reviewed by the Auditor-Controller. CHLA agrees with the specific audit finding that a small number of Progress Notes completed to describe the intervention of more than one staff member (e.g. groups) did not consistently describe the specific contributions of each staff members. CHLA accepts the importance of such specificity, and will focus on-going staff trainings and Quality Assurance activities of all clinicians upon the importance of such specificity with regard to documentation involving multiple staff.

CHLA disagrees with the summary finding that indicates that CHLA did not complete the Client Care Plans in accordance with County Contract for 13 (52%) of 25 client sampled. CHLA feels that this

finding greatly overestimates the frequency of "incompletion" and asserts that the CHLA compliance with Client Care Planning requirements are significantly better than as summarized in the audit report. For example, CHLA does not agree with the auditor's assessment that "Seven of 25 (28%) Client Care Plans contain goals that were not observable and/or quantifiable" when these Client Care Plans contain such observable and measurable goals as:

Client will increase her compliance with directions by 2<sup>nd</sup> time asked from 40% of the time to 60% of the time

Or

(Client) will reduce number of times she cries when asked to do something from 100% to 60% as evidenced by parent report

While CHLA disagrees with the summary findings regarding Client Care Planning procedures, CHLA does feel that CHLA can make improvements to the process of developing observable/measurable treatment plans, and obtaining caregiver signatures. The CHLA vendor for its electronic medical record is working with other LA County Contract Agencies to make modifications to its electronic Client Care Plan. These modifications will allow CHLA to more efficiently document the treatment planning procedure, and will more effectively comply with the County's contract requirements. An important component of these modifications will be to complete an electronic signature procedure for caregivers so that Client Care Plans can be completed, reviewed and signed in one session. In addition to electronic interface improvements, CHLA will commit to including trainings and in-service presentations on the development of observable and measurable treatment goals in required monthly staff trainings and Quality Assurance activities.

#### **COST ALLOCATION PLAN**

The August 11, 2008 Draft Report on Cost Allocation Plan indicates three recommendations. These three recommendations are that CHLA management:

2. Ensure that the Agency maintains a detailed Cost Allocation Plan that allocates shared costs that benefit DMH clients.
3. Maintain documentation to support expenditure allocations.
4. Revise the FY 2006-07 Cost Report to reduce the reported program expenditures by \$87,452 (\$83,054 + \$4,398) and repay DMH for any excess amount received.

CHLA would like to provide our response to these recommendations, and specific action plans to ensure that we are billing for services in accordance with our contract with the DMH.

#### **2. Response to Maintain a Cost Allocation Plan**

CHLA agrees to ensure that a detailed Cost Allocation Plan is maintained. CHLA has always prepared their DMH cost report in accordance with all applicable program instructions and using a methodology resulting from numerous negotiating sessions with DMH personnel. This methodology has been consistently used by CHLA and has been consistently accepted by DMH for all years under all DMH contracts.

CHLA developed Cost Allocation Plan during the course of this audit at the specific request of the auditors from the Department of Auditor-Controller. CHLA will use this newly developed Cost Allocation Plan in the preparation of all cost reports prepared for DMH for Fiscal Year 2007-08 and all subsequent years required by the DMH contract.

#### **3. Response to Maintain documentation to support expenditure allocations**

While CHLA disagrees with the summary findings that the documentation provided does not support the expenditures, CHLA does feel that CHLA can make improvements to the process of providing and

presenting this support. CHLA will begin immediately to improve the process by which facility lease expenses are maintained and allocated to the using areas.

**4. Response to Revise the FY 2006-07 Cost Report to reduce the reported program expenditures by \$83,054 and repay DMH for any excess amount received.**

CHLA contracts with DMH and is paid on a negotiated rate per unit of service provided and is NOT paid on a cost reimbursement basis. The CHLA cost of providing these services to the DMH exceeds the negotiated rate in every contracted modality and these costs will continue to exceed the negotiated rates even when the DMH auditor findings are considered. Accordingly CHLA will not revise the FY 2006-07 cost report, but will implement the newly developed Cost Allocation Plan in the preparation of all cost reports prepared for DMH for Fiscal Year 2007-08 and all subsequent years required by the DMH contract.

**EXPENDITURES**

The August 11, 2008 Draft Report on Expenditures indicates three recommendations. These three recommendations are that CHLA management:

5. Ensure that program expenditures are supported by adequate documentation.
6. Reduce DMH program expenditures charged to DMH for FY 2007-08 by \$10,043 (\$9,210 + \$833) to reflect the undocumented expenditures.
7. Revise their FY 2006-07 Cost Report to reduce the reported program expenditures by \$814 and repay DMH for any excess amount received.

CHLA would like to provide our response to these recommendations, and specific action plans to ensure that we are billing for services in accordance with our contract with the DMH.

**5. Response to Ensure that program expenditures are supported by adequate documentation**

While CHLA disagrees with the summary findings that the documentation provided does not support the expenditures, CHLA does feel that the Agency can make improvements to the process of providing and presenting this support. CHLA will begin immediately to improve the process by which program expenses are maintained and allocated to the using areas.

**6. Response to Reduce DMH program expenditures charged to DMH for FY 2007-08 by \$10,043 (\$9,210 + \$833) to reflect the undocumented expenditures.**

CHLA disagrees with the summary findings that the documentation provided does not support the expenditures. Two expenditures totaling \$9,210 were paid during Fiscal Year 2007-08 to consultants that were paid an hourly rate. However, the Agency did maintain documentation to support the expenditures. Specifically, the Agency maintained a work schedule that indicated the date and hours worked to support the hours charged to the program.

The first expense for \$6,250 was for a one month retainer fee for our electronic medical records. CHLA provided the documentation to show the amount to be charged and the reason for the charge. CHLA consultants and contractors do not provide time cards for their work as they are not our employees. The invoice CHLA provided to the auditors did show the dates worked and the number of hours.

The second expense for \$2,960 was for a consultant to help support the Clinical Director with the clinical review and editing of a large number of Psychiatric service notes completed but not finalized. The consultant was a graduate of our accredited internship program and had been recommended by the Internship Training Director. The consultant worked on a daily basis to perform editing and quality assurance reviews of these notes, which were then electronically returned to the Child Psychiatrist for his final approval and submission of these documents to DMH for billing purposes. CHLA consultants

and contractors do not provide time cards for their work as they are not our employees. CHLA did provide the auditors with a copy of the consultant's calendar that showed the number of hours worked for each day.

The third expense for \$833 was for an administrative stipend to be paid to one of our USC faculty to provide clinical site supervision to our 5000 Sunset location. The overall responsibilities of the clinical site supervisor are a broad variety of safety, supervision, audit-support, and facilities needs. Because the faculty member is paid through USC, the stipend needed to be paid by a monthly check request from CHLA. The check request with appropriate signatures was provided to the auditors.

**7. Response to Revise the FY 2006-07 Cost Report to reduce the reported program expenditures by \$814 and repay DMH for any excess amount received.**

CHLA disagrees with the summary findings that the documentation provided does not support the expenditures. This expense for \$814 was for a digital scale that was purchased for our clients. The purchase was made from Cardinal, which CHLA has an agreement to purchase through electronic signature and approval. CHLA contracts with DMH and is paid on a negotiated rate per unit of service provided and is NOT paid on a cost reimbursement basis. The CHLA cost of providing these services to the DMH exceeds the negotiated rate in every contracted modality and these costs will continue to exceed the negotiated rates even when the DMH auditor findings are considered. Accordingly CHLA will not revise the FY 2006-07 cost report. However, CHLA agrees to consider the auditor's recommendations when preparing the cost report for DMH for Fiscal Year 2007-08 and all subsequent years required by the DMH contract.

CHLA also feels that the Agency can make improvements to the process of providing and presenting documentation necessary to support expenditures. CHLA will begin immediately to improve the process by which program expenses are maintained and allocated to the using areas.

**FIXED ASSETS AND EQUIPMENT**

The August 11, 2008 Draft Report on Fixed Assets and Equipment indicates one recommendation. This recommendation is that CHLA management:

8. Ensure that the fixed assets and equipment listing includes the item description and acquisition cost of the asset.

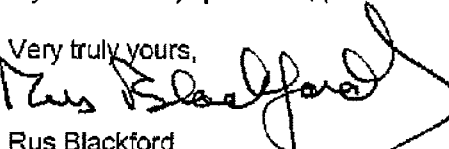
CHLA would like to provide our response to this recommendation, and specific action plans to ensure that we are billing for services in accordance with our contract with the DMH.

**8. Response to Ensure that the fixed assets and equipment listing includes the item description and acquisition cost of the asset.**

While CHLA disagrees with the summary findings that the documentation provided does not support the expenditures, CHLA does feel that the Agency can make improvements to the process of providing and presenting this support. CHLA will begin immediately to improve the process by which program expenses are maintained and allocated to the using areas. CHLA has currently begun a process to reconcile the entire DMH fixed asset inventory with the fixed asset ledger. CHLA anticipates completing this process within the next four months.

If you have any questions, please call me at (323) 361-8333.

Very truly yours,

  
Rus Blackford  
Controller